

ISLAND CITY ACADEMY
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Island City Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy (the Academy), as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy as of June 30, 2008, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2008, on our consideration of Island City Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xii and 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Island City Academy's basic financial statements. The additional information on pages 24 and 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costinison & Ellis, P.C.

October 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Island City Academy's (the Academy) annual financial report presents our discussion and analysis of the Academy's financial performance during the fiscal year that ended on June 30, 2008.

FINANCIAL HIGHLIGHTS

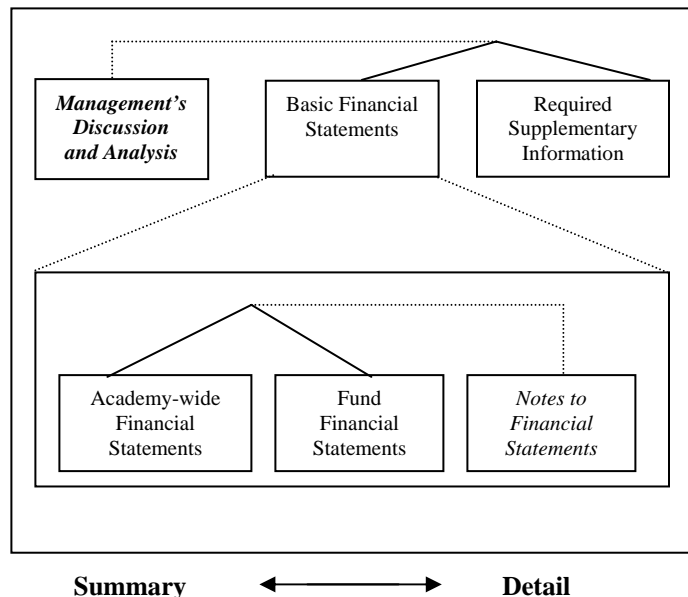
- The Academy's financial status remained stable for the third year in a row, total net assets increased by approximately \$40,000.
- Overall revenues were approximately \$1,500,000
- The total cost of instruction programs increased approximately \$100,000.
- Total revenues decreased approximately \$40,000, while total expenses increased approximately \$160,000.
- Enrollment decreased by approximately 5 students from the prior year.
- The Academy reduced its outstanding long-term debt \$30,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are *academy-wide financial statements* that provide both *short-term* and *long-term* information about the Academy's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Academy, reporting the Academy's operations *in more detail* than the academy-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the Academy acts solely as a *trustee or agent* for the benefit of others.

**Figure A-1
Organization of Island City's Annual
Financial Report**



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of Academy-wide and Fund Financial Statements			
	Academy-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Island City's funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

ACADEMY-WIDE STATEMENTS

The academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets include *all* of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two academy-wide statements report the Academy's *net assets* and how they have changed. Net assets - the difference between the Academy's assets and liabilities - are one way to measure the Academy's financial health or *position*.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional nonfinancial factors such as changes in the Academy's revenue streams and the condition of school buildings and other facilities. Currently the Academy is near capacity student enrollment and any variation from that may reflect negatively on the overall financial health of the Academy.

In the academy-wide financial statements, the Academy's activities:

- Governmental activities - Most of the Academy's basic services are included here, such as regular and special education, administration and operations and maintenance. State formula aid finances most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Academy's *funds*, focusing on its most significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by loan covenants.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.
- The Academy maintains a School Lunch Fund and a Capital Projects Fund to properly account for these activities.

The Academy has two kinds of funds:

- Governmental funds - Most of the Academy's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

- Fiduciary funds - The Academy is the trustee, or fiduciary, for assets that belong to others, such as student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the Academy cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Net assets - The Academy's *combined* net assets were larger on June 30, 2008, than they were the year before - increasing by \$40,571.

The Academy's improved financial position is the product of many factors.

Table A-3		
Island City's Net Assets		
	2008	2007
Current and other assets	\$ 918,935	\$ 841,784
Capital assets	1,766,133	1,817,300
Total assets	2,685,068	2,659,084
Long-term debt outstanding	1,575,000	1,605,000
Other liabilities	229,886	214,473
Total liabilities	1,804,886	1,819,473
Net assets:		
Invested in capital assets, net of related debt:	161,133	182,300
Restricted	208,260	208,172
Unrestricted	510,789	449,139
Total net assets	\$ 880,182	\$ 839,611

Table A-4 Changes in Island City's Net Assets		
	2008	2007
Revenues:		
Charges for services	\$ 19,544	\$ 11,250
Operating grants	26,193	48,428
General revenues:		
State aid - unrestricted	1,419,502	1,427,053
Local sources	24,625	40,173
Other	14,086	15,617
Total revenues	1,503,950	1,542,521
Expenses:		
Instruction	810,205	707,852
Support services	437,745	399,510
Food services	39,863	25,482
Interest on long-term debt	116,543	118,719
Unallocated depreciation	59,023	53,711
Total expenses	1,463,379	1,305,274
Change in net assets	\$ 40,571	\$ 237,247

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The strong financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds reported *combined* fund balances of \$767,533; \$60,831 above last year's ending fund balances of \$706,702.

The Academy's general fund had more revenues than expenditures and transfers out in 2008 by \$7,367. The debt service fund had less revenues and transfers in than expenses by \$819. The capital projects fund - building and site had more revenues and transfers in than expenses in 2008 of \$54,283. Overall, the Academy had an increase in total fund balance.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised the annual operating budget several times. These budget amendments are:

- Changes made in the second and fourth quarters to account for final enrollment counts and changes in assumptions since the original budget was adopted.

While the Academy's final budget for the general fund anticipated that revenues would be lower than expenditures and transfers out by roughly \$75,000, the actual results for the year show approximately a \$7,400 surplus.

- Actual revenues were \$1,088 higher than expected.
- The actual expenditures were \$78,095 below budget, due primarily to various expense reduction practices.
- The Academy board transferred \$50,000 to the capital project fund for building repairs and renovation plans to continue to designate funds to this purpose when fiscally responsible.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008, the Academy had invested \$1,766,133 in a broad range of capital assets, including school building, computer and audiovisual equipment and other school furniture. This amount represents a net decrease of \$51,167, from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements.) Total depreciation expense for the year was \$59,023.

Table A-5		
Island City's Capital Assets		
<i>(net of depreciation)</i>		
	2008	2007
Land	\$ 96,082	\$ 96,082
Buildings	1,486,199	1,521,129
Computer equipment	33,976	34,650
Land improvements	35,491	37,384
Furniture and fixtures	114,385	128,055
Total	\$ 1,766,133	\$ 1,817,300

Long-term Debt

At year-end the Academy had \$1,605,000 in certificates of participation outstanding- a reduction of \$30,000 from last year. (More detailed information about the Academy's long-term liabilities is presented in Note 6 to the financial statements.)

- The Academy continued to pay down its debt, retiring \$30,000.
- No new debt was issued during the year.

FACTORS BEARING ON THE ACADEMY'S FUTURE

At the time these financial statements were prepared and audited, the Academy was aware of three existing circumstances that could significantly affect its financial health in the future:

- The 2008-2009 foundation allowance has been increased to \$7,316; also, \$36,542 has been estimated as the allocation for Section 31A At-Risk funding.
- A weak state economy could cause future pro-rating of state aid.
- The ability to maintain pupil enrollment in the weak economy as families are unable to afford transportation and clothing costs.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our parents, customers, investors, and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Administrator's Office, Island City Academy, 6421 Clinton Trail, Eaton Rapids, MI 48827.

BASIC FINANCIAL STATEMENTS

**ISLAND CITY ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS	Governmental activities
CURRENT ASSETS:	
Cash	\$ 396,521
Investments	227,566
Receivables:	
Other governmental units	258,719
Prepaid expenditures	<u>36,129</u>
TOTAL CURRENT ASSETS	<u>918,935</u>
NONCURRENT ASSETS:	
Capital assets	2,172,607
Less accumulated depreciation	<u>(406,474)</u>
TOTAL NONCURRENT ASSETS	<u>1,766,133</u>
TOTAL ASSETS	<u><u>\$ 2,685,068</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 17,008
Accrued interest	48,484
Accrued salaries and related items	134,394
Current portion of long-term debt	<u>30,000</u>
TOTAL CURRENT LIABILITIES	229,886
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	<u>1,575,000</u>
TOTAL LIABILITIES	<u>1,804,886</u>
NET ASSETS:	
Invested in capital assets, net of related debt	161,133
Restricted for debt service	208,260
Unrestricted	<u>510,789</u>
TOTAL NET ASSETS	<u>880,182</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,685,068</u></u>

**ISLAND CITY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Functions/programs	Expenses	Program revenue		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 810,205	\$ -	\$ -	\$ (810,205)
Support services	437,745	-	4,012	(433,733)
Food services	39,863	19,544	22,181	1,862
Interest on long-term debt	116,543	-	-	(116,543)
Unallocated depreciation	59,023	-	-	(59,023)
Total governmental activities	<u>\$ 1,463,379</u>	<u>\$ 19,544</u>	<u>\$ 26,193</u>	<u>(1,417,642)</u>
General revenues:				
State of Michigan school aid unrestricted				1,419,502
Local sources				24,625
Investment revenue				<u>14,086</u>
Total general revenues				<u>1,458,213</u>
CHANGE IN NET ASSETS				40,571
NET ASSETS , beginning of year				<u>839,611</u>
NET ASSETS , end of year				<u><u>\$ 880,182</u></u>

**ISLAND CITY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General fund	Debt service	Nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash	\$ 291,979	\$ -	\$ 104,542	\$ 396,521
Investments	-	227,566	-	227,566
Receivables:				-
Other governmental units	258,719	-	-	258,719
Due from other funds	-	29,178	512	29,690
Prepaid expenditures	36,129	-	-	36,129
TOTAL ASSETS	\$ 586,827	\$ 256,744	\$ 105,054	\$ 948,625
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 17,008	\$ -	\$ -	\$ 17,008
Accrued salaries and related items	134,394	-	-	134,394
Due to other funds	29,690	-	-	29,690
TOTAL LIABILITIES	181,092	-	-	181,092

	General fund	Debt service	Nonmajor governmental funds	Total governmental funds
FUND BALANCES:				
Reserved for prepaid expenditures	\$ 36,129	\$ -	\$ -	\$ 36,129
Reserved for debt service	-	256,744	-	256,744
Designated for future building and site expenditures	-	-	102,630	102,630
Undesignated	369,606	-	2,424	372,030
TOTAL FUND BALANCES	405,735	256,744	105,054	767,533
TOTAL LIABILITIES AND FUND BALANCES	\$ 586,827	\$ 256,744	\$ 105,054	\$ 948,625
Total governmental fund balances				\$ 767,533
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the fund:				
The cost of the capital assets is		\$ 2,172,607		
Accumulated depreciation is		<u>(406,474)</u>		
				1,766,133
Long-term liabilities are not due and payable from current resources and are not reported in the fund:				
Certificates of participation				(1,605,000)
Accrued interest is not included as a liability in government funds, it is recorded when paid				<u>(48,484)</u>
Net assets of governmental activities				\$ 880,182

See notes to financial statements.

ISLAND CITY ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General fund	Debt service	Nonmajor governmental funds	Total governmental funds
REVENUES:				
Local sources	\$ 33,441	\$ 3,411	\$ 21,403	\$ 58,255
State sources	1,419,502	-	512	1,420,014
Federal sources	3,500	-	22,181	25,681
Total revenues	<u>1,456,443</u>	<u>3,411</u>	<u>44,096</u>	<u>1,503,950</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic instruction	713,079	-	-	713,079
Added needs	97,126	-	-	97,126
Total instruction	<u>810,205</u>	<u>-</u>	<u>-</u>	<u>810,205</u>
Support services:				
Pupil	3,006	-	-	3,006
General administration	98,520	-	-	98,520
School administration	233,297	-	-	233,297
Business	10,200	-	-	10,200
Operations and maintenance	100,578	-	-	100,578
Total support services	<u>445,601</u>	<u>-</u>	<u>-</u>	<u>445,601</u>
Food service	-	-	39,863	39,863
Debt service:				
Principal retirement	-	30,000	-	30,000
Interest and fiscal charges	-	117,450	-	117,450
Total expenditures	<u>1,255,806</u>	<u>147,450</u>	<u>39,863</u>	<u>1,443,119</u>
EXCESS (DEFICIENCY) OF REVENUES UNDER (OVER) EXPENDITURES	<u>200,637</u>	<u>(144,039)</u>	<u>4,233</u>	<u>60,831</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	143,220	50,050	193,270
Operating transfers out	(193,270)	-	-	(193,270)
Total other financing sources (uses)	<u>(193,270)</u>	<u>143,220</u>	<u>50,050</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>7,367</u>	<u>(819)</u>	<u>54,283</u>	<u>60,831</u>
FUND BALANCES:				
Beginning of year	398,368	257,563	50,771	706,702
End of year	<u>\$ 405,735</u>	<u>\$ 256,744</u>	<u>\$ 105,054</u>	<u>\$ 767,533</u>

See notes to financial statements.

**ISLAND CITY ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Net change in fund balances total governmental funds	\$ 60,831
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(59,023)
Capital outlay	7,856

Accrued interest on certificates of participation is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	49,391
Accrued interest payable, end of the year	(48,484)

Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statements of activities (where they are additions and reductions of liabilities)

Principal repayment	30,000
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Change in net assets of governmental activities	\$ 40,571
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**ISLAND CITY ACADEMY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2008**

	<u>Agency fund</u>
ASSETS	
Cash	\$ 4,642
LIABILITIES	
Due to student groups	\$ 2,077
Due to parent/teacher groups	<u>2,565</u>
	<u>\$ 4,642</u>

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Island City Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

Island City Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Central Michigan University is the authorizing body for the Academy. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and No. 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt, restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (state revenue, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources, intergovernmental revenue, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Other non-major funds

The *school lunch fund* accounts for activity related to the preparation and service of food to children of the school.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

Fiduciary funds account for assets held by the Academy in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Academy under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposit accounts.

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

3. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables are shown net of an allowance for uncollectible amounts, if any.

a. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Computer equipment	5 years
Furniture and other equipment	5 - 20 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$1,000.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Certificates of participation premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize certificates of participation premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether of not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

6. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The School Administrator submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The School Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS, INVESTMENTS AND CREDIT RISK

As of June 30, 2008, the Academy had the following investments.

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
First American Treasury Obligation Fund - class D	<u>\$ 227,566</u>	<u>0.0027</u>	AAA	<u>100%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The Academy voluntarily invests certain excess funds in external pooled investment funds which included treasury obligations. The treasury obligation reports as of June 30, 2008, the fair value of the Academy's investments is the same as the value of the pool shares. The above investments are restricted for payment of debt service.

The Academy does not currently have an investment policy.

Interest rate risk. The Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2008, \$301,163 of the Academy's bank balance of \$401,163 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS, INVESTMENTS AND CREDIT RISK (Concluded)

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign currency risk. The Academy is not authorized to invest in investments which have this type of risk.

NOTE 4 - RECEIVABLES

Amounts due from other governmental units is the July and August state aid payments due from the State of Michigan.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	July 1, 2007	Additions	Deletions	June 30, 2008
Assets not being depreciated:				
Land	\$ 96,082	\$ -	\$ -	\$ 96,082
Capital assets, being depreciated:				
Building	1,742,138	-	-	1,742,138
Computer equipment	39,954	7,856	-	47,810
Land improvements	37,856	-	-	37,856
Furniture and fixtures	248,721	-	-	248,721
Subtotal	2,068,669	7,856	-	2,076,525
Accumulated depreciation:				
Building	221,009	34,930	-	255,939
Computer equipment	5,304	8,530	-	13,834
Land improvements	472	1,893	-	2,365
Furniture and fixtures	120,666	13,670	-	134,336
Total accumulated depreciation	347,451	59,023	-	406,474
Net capital assets being depreciated	1,721,218	(51,167)	-	1,670,051
Net capital assets	<u>\$ 1,817,300</u>	<u>\$ (51,167)</u>	<u>\$ -</u>	<u>\$ 1,766,133</u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$59,023. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 6 - LONG-TERM DEBT

The Academy issued certificates of participation for the acquisition, construction and improvement of major capital facilities, as well as, the purchase of equipment. These certificates of participation are direct obligations and pledge the full faith and credit of the Academy. Long-term debt currently outstanding at June 30 is as follows:

August 1999 certificates of participation - due in annual installments of \$30,000 to \$140,000 through August 2029; interest at 7.25%. Secured by pledged state aid, first mortgage on the property security interest in specific equipment and debt service reserve fund.	<u>\$ 1,605,000</u>
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**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2008, including interest of \$1,754,848 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 30,000	\$ 114,405	\$ 144,405
2010	35,000	111,904	146,904
2011	35,000	109,366	144,366
2012	40,000	106,503	146,503
2013	40,000	103,603	143,603
2014 - 2018	260,000	464,436	724,436
2019 - 2023	375,000	347,094	722,094
2024 - 2028	520,000	182,483	702,483
2029 - 2030	270,000	215,054	485,054
	<u>\$ 1,605,000</u>	<u>\$ 1,754,848</u>	<u>\$ 3,359,848</u>

An amount of \$256,744 is available in the debt service funds to service the debt.

The following is a summary of long-term debt transactions of the Academy for the year ended June 30, 2008:

Long-term debt, July 1, 2007	\$ 1,635,000
Deletions	<u>(30,000)</u>
Long-term debt, June 30, 2008	<u>\$ 1,605,000</u>

Interest expense (government-wide) for the year ended June 30, 2008 was \$116,543.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Individual fund due to and from other funds at June 30, 2008 are as follows:

Fund	Due from other funds	Due to other funds
General fund	\$ -	\$ 29,690
Debt service fund	29,178	-
Special revenue fund - school lunch fund	512	-
Total	<u>\$ 29,690</u>	<u>\$ 29,690</u>

Outstanding balances between funds represent July and August State Aid payments to be paid by the General Fund to the Debt Service Fund.

NOTE 8 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 9 - INTERFUND TRANSFERS

During 2008, \$143,220 was transferred from the general fund to the debt service fund to pay principal and interest due on the certificates of participation. In addition, \$50 was transferred from the general fund to the school lunch fund for costs associated with food service. Finally, \$50,000 was transferred from the general fund to the capital projects fund for future building and site uses.

REQUIRED SUPPLEMENTARY INFORMATION

**ISLAND CITY ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local sources	\$ 23,750	\$ 23,750	\$ 33,441	\$ 9,691
State sources	1,382,775	1,405,452	1,419,502	14,050
Federal sources	22,000	26,153	3,500	(22,653)
Total revenues	<u>1,428,525</u>	<u>1,455,355</u>	<u>1,456,443</u>	<u>1,088</u>
EXPENDITURES:				
Instruction:				
Basic programs	726,890	687,087	713,079	(25,992)
Added needs	96,235	98,135	97,126	1,009
Total instruction	<u>823,125</u>	<u>785,222</u>	<u>810,205</u>	<u>(24,983)</u>
Support services:				
Pupil	25,437	25,437	3,006	22,431
General administration	107,180	162,228	98,520	63,708
School administration	207,340	222,564	233,297	(10,733)
Business	13,500	13,500	10,200	3,300
Operations and maintenance	161,800	124,950	100,578	24,372
Total support services	<u>515,257</u>	<u>548,679</u>	<u>445,601</u>	<u>103,078</u>
Total expenditures	<u>1,338,382</u>	<u>1,333,901</u>	<u>1,255,806</u>	<u>78,095</u>
EXCESS OF REVENUES OVER EXPENDITURES	90,143	121,454	200,637	79,183
OTHER FINANCING SOURCES (USES):				
Operating transfers out	<u>(196,580)</u>	<u>(196,580)</u>	<u>(193,270)</u>	<u>3,310</u>
NET CHANGE IN FUND BALANCE	<u>\$ (106,437)</u>	<u>\$ (75,126)</u>	7,367	<u>\$ 82,493</u>
FUND BALANCE:				
Beginning of year			<u>398,368</u>	
End of year			<u>\$ 405,735</u>	

ADDITIONAL INFORMATION

**ISLAND CITY ACADEMY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008**

	Special revenue fund School lunch	Capital projects fund Building & site	Total nonmajor governmental funds
ASSETS			
ASSETS:			
Cash	\$ 1,912	\$ 102,630	\$ 104,542
Receivables:			
Due from other funds	512	-	512
TOTAL ASSETS	\$ 2,424	\$ 102,630	\$ 105,054
FUND BALANCES			
FUND BALANCES:			
Designated for future building expenses and site expenditures	\$ -	\$ 102,630	\$ 102,630
Undesignated	2,424	-	2,424
TOTAL FUND BALANCES	\$ 2,424	\$ 102,630	\$ 105,054

**ISLAND CITY ACADEMY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2008**

	Special revenue fund School Lunch	Capital projects fund Building & Site	Total nonmajor governmental funds
REVENUES:			
Local sources	\$ 19,544	\$ 1,859	\$ 21,403
State sources	512	-	512
Federal aid	22,181	-	22,181
Total revenues	42,237	1,859	44,096
EXPENDITURES:			
Food service	39,863	-	39,863
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,374	1,859	4,233
OTHER FINANCING SOURCES:			
Operating transfer in	50	50,000	50,050
NET CHANGE IN FUND BALANCES	2,424	51,859	54,283
FUND BALANCES, beginning of year	-	50,771	50,771
FUND BALANCES, end of year	\$ 2,424	\$ 102,630	\$ 105,054



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Island City Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy as of and for the year ended June 30, 2008, which collectively comprise Island City Academy's basic financial statements and have issued our report thereon dated October 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Island City Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Island City Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Island City Academy's internal control over financial reporting.

Our consideration of the internal control over financial reporting was limited for the purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Island City Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Island City Academy's in a separate letter dated October 22, 2008.

Island City Academy's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Island City Academy's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Directors, management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costurison & Ellis, P.C.

October 22, 2008

**ISLAND CITY ACADEMY
SCHEDULE OF FINDINGS AND RESPONSES**

Finding 2008-1

Finding considered a significant deficiency

Criteria:

Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires communication in writing when a entity requires assistance to prepare the financial statements, including the footnotes, in accordance with accounting principles generally accepted in the United States of America.

Condition

Currently, the Academy's bookkeeper prepares the interim financial reports and assists the external auditor in the preparation of the annual financial statements.

Cause

The staff and bookkeeper of the Academy understands all the information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements and certain reconciliations required by Governmental Accounting Standards Board Statement #34.

Effect

Utilization of the external auditor in preparing the footnotes and certain reconciliations to the financial statements assists management with the external financial reporting responsibility. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Recommendation

At this time, no changes are recommended, this is only being communicated as required by professional standards.

Client Response

The Academy is aware of this deficiency and believes it is not cost beneficial to develop this expertise. The Academy will continue to use the external auditors for this technical assistance and would expect this situation to be ongoing.



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October 22, 2008

To the Board of Directors
Island City Academy

In planning and performing our audit of the financial statements of Island City Academy as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Island City Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 22, 2008 on the financial statements of Island City Academy. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

Contract addendums

During the course of the audit, it was noted that several teachers performed additional work outside of the scope of the language in their teaching contract. Accordingly, these teachers were given additional compensation for these duties. These additional duties are typically approved at board meetings. We recommend the Academy document the additional compensation as an addendum to the contract. A standard "form letter" could be developed and utilized as an addendum to their current teaching contract and would define the additional duties and related compensation.

Month-end procedures checklist

During the recently completed audit, we were required by new professional auditing standards to review, inspect, test and gain a further understanding of the Academy's internal controls. The increased emphasis on documentation of procedures performed will continue into the future. We have provided Academy personnel with a month-end procedures checklist which can be customized further for your Academy. The purpose of this checklist is to provide Academy personnel with a centralized list of required month-end procedures, as well as, a place to document who completed the procedure and who reviewed the procedure performed.

We recommend the Academy consider implementing this checklist on a monthly basis to improve documentation of required month-end procedures and clearly document when and by whom the procedure was performed and reviewed.

Uninsured bank deposits

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding; there are limits to FDIC insured balances. Generally, the limits are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). The Academy may also request certain funds be collateralized by the bank. There are other options regarding investing surplus funds from investment pools and treasury investments to commercial paper.

We are not investment advisors; however, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review the Academy's investment policy to ensure it continues to satisfy the Academy's goals.

This report is intended solely for the information and use of Island City Academy, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costurison & Ellis, P.C.



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October 22, 2008

To the Board of Directors
Island City Academy

We have audited the financial statements of Island City Academy for the year ended June 30, 2008, and have issued our report thereon dated October 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Island City Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Island City Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Island City Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciable lives of capital assets is based on management's estimate of the economic useful life of the asset. We evaluated the key factors and assumptions used to develop the depreciable lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Island City Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Island City Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Island City Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costurison & Ellis, P.C.